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The Senate
State of Iowa
Eighty-third General Assembly
STATEHOUSE
Des Moines, Iowa 50319

ASSISTANT MAJORITY LEADER

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Appropriations
Economic Growth
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Health and Human Services
Appropriations Subcommittee,
Chair

July 8, 2013

Mr. Nick Gerhart
Commissioner, Iowa Insurance Division
330 Maple Street
Des Moines, IA 50319-0065

In re: Status of Wellmark surplus and reserves -- 2013

Dear Commissioner Gerhart:

I write on behalf of Iowa insurance consumers with concerns about Iowa's largest insurance provider, Wellmark Blue Cross and Blue Shield of Iowa. The company recently announced it will not offer Iowans insurance coverage as part of the health insurance exchange Iowa will begin operating in partnership with the federal government in 2014.

The concern I raise is related to reserves and surplus being held by the company, which total approximately \$1.3 billion. My understanding is that a report was completed by the Iowa Insurance Division in 2011 finding the level of reserves and surplus was appropriate. This report also concluded the new federal health care law, the Affordable Care Act, provided much of the justification for the reserves and surplus. Specifically, the issue of participation in the health insurance exchange was listed as one of the factors driving the company's need to hold the \$1.3 billion.

In relevant part the report provided:

"While it is not currently possible to determine an amount of increased surplus relating to the PPACA reforms, it is clear that more surplus would be required, not less." Factors identified as driving the need for more surplus associated with the Affordable Care Act included: minimum loss ratio standards with related rebate requirements, health insurance exchanges, taxation changes to support health care reform and the potential business impact of state-based cooperatives."

The company's decision to decline participation in Iowa's partnership exchange removes a major component of its justification for holding reserves and surplus. Since the state requires a reserve account of approximately \$350 million, it would appear to me that Wellmark's reserve is nearly 400% higher than required..

I am requesting a new report be commissioned, completed, submitted to legislators and made available to Iowans at your earliest possible convenience. The funds in question are the property of the policy holders of Wellmark. They are Iowa taxpayers who have paid into the \$1.3 billion surplus. They deserve to know the reason that money is being kept from them. It is my position that a sufficient basis exists at this time to return that portion of the reserve that is no longer required to the Iowans who have contributed to it.

Health insurance premiums are high enough without families having to add money to Wellmark's books. The company would appear to be financially healthy and prepared to meet the needs of its policyholders. It is time some of its reserves and surplus funds be returned to Iowans in the form of premium rebates.

In addition, consumers are also losing any leverage their premiums generate by not having the insurers investment income included in their final premium rate calculation. Is it true that you are not allowed, by statute, to consider an insurer's investment income toward their future premium rate increases? Would it be advisable for you as commissioner to have authority from the legislature to include investments being held by a company when analyzing the need for a rate increase?

I strongly believe that it makes sense to count all of a company's holdings when taking into account the need for additional consumer contribution to their insurance? It would appear Iowa law in this area could use an update. I would be interested in your analysis and input on this matter.

Thank you for your consideration and I look forward to receiving the information requested herein.

Very truly yours,



Jack Hatch

Cc: Senator Matt McCoy